

**UNIVERSITY OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 1999

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INDEPENDENT AUDITOR'S REPORT

September 17, 1999

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the accompanying basic financial statements of the University of South Carolina as of June 30, 1999, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Faculty House of Carolina, Incorporated, a component unit of the University, which represents less than one percent both of the assets and of the revenues of the University's auxiliary enterprises. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors. We also did not audit the financial statements of the University of South Carolina School of Medicine Educational Trust and the Clinical Faculty Practice Plan, component units of the University, which are presented in a discrete column in the accompanying financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
University of South Carolina
September 17, 1999

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of the University of South Carolina are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes of university funds and the financial position, activities, and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the University, an institution of the State of South Carolina. These financial statements referred to above include the financial activities of the Faculty House of Carolina, Incorporated, the University of South Carolina School of Medicine Educational Trust, and the Clinical Faculty Practice Plan, component units of the University. These financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government.

In our opinion, based on our audit and the reports of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University of South Carolina and its discretely presented component units at June 30, 1999, and the changes in fund balances, and current funds revenues, expenditures, and other changes of university funds and the activities and cash flows of its discretely presented component units for the year then ended in conformity with generally accepted accounting principles.

These financial statements exclude the related entities described in Note 17 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organizations project, the Governmental Accounting Standards Board is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

The year 2000 supplementary information on pages 63-64 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the University is or will become year 2000 compliant, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business are or will become year 2000 compliant.

Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF SOUTH CAROLINA
Balance Sheet
University and Discretely Presented Component Units
June 30, 1999

	CURRENT FUNDS		LOAN FUND	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			AGENCY FUND	COMPONENT UNITS	TOTALS
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT			MEMORANDUM ONLY
ASSETS										
Cash and Cash Equivalents	\$ 60,882,352	\$ 284,865	\$ 1,962,245	\$ 5,194,960	\$ 33,907,711	\$ 2,916,371	\$ -	\$ 1,896,521	\$ 5,002,086	\$ 112,047,111
Investments	-	-	-	4,712,628	-	-	-	-	4,966,130	9,678,758
Loan Participation Deposits	-	-	25,000	-	-	-	-	-	-	25,000
Accounts Receivable - Net	5,900,531	-	-	-	-	-	-	1,225,622	-	7,126,153
Student Loans Receivable - Net	-	-	16,669,273	-	-	-	-	-	-	16,669,273
Notes Receivable	5,450,000	-	-	11,112,716	-	-	-	-	-	16,562,716
Patients Accounts Receivable - Net	-	-	-	-	-	-	-	-	2,873,567	2,873,567
Grants and Contracts Receivable:										
Federal	-	10,515,650	-	-	-	60,604	-	-	-	10,576,254
State	-	402,762	-	-	-	-	-	-	-	402,762
Other	-	3,757,510	-	-	-	-	-	-	-	3,757,510
Accrued Interest/Endowment Income										
Receivable	736,522	207,628	12,255	300,377	147,272	45,470	-	5,079	16,055	1,470,658
Capital Improvement Bond Proceeds										
Receivable	-	-	-	-	21,158,229	-	-	-	-	21,158,229
Capital Reserve Fund Appropriation										
Receivable	-	-	-	-	2,500,000	-	-	-	-	2,500,000
Other Receivables	-	-	-	-	-	-	-	-	1,051,987	1,051,987
Prepaid Items	2,606,186	33,120	-	-	-	-	-	-	87,336	2,726,642
Inventories	2,258,857	-	-	-	-	-	-	-	-	2,258,857
Due From Other Funds	5,456,163	-	-	-	-	-	-	-	-	5,456,163
Unamortized Bond Discount	-	-	-	-	-	309,719	-	-	-	309,719
Cash Surrender Value of Life Insurance	-	-	-	1,767,342	-	-	-	-	-	1,767,342
Land	-	-	-	-	-	-	29,910,730	-	-	29,910,730
Buildings and Improvements	-	-	-	-	-	-	579,363,452	-	-	579,363,452
Furniture, Fixtures, Equipment	-	-	-	-	-	-	98,236,111	-	4,341,545	102,577,656
Library Materials	-	-	-	-	-	-	95,158,595	-	-	95,158,595
Construction in Progress	-	-	-	-	-	-	25,048,214	-	-	25,048,214
Leasehold Interest and Improvements	-	-	-	-	-	-	1,167,273	-	9,566,875	10,734,148
Accumulated Depreciation	-	-	-	-	-	-	-	-	(4,384,800)	(4,384,800)
Advance to Other Funds	-	-	-	775,000	-	-	-	-	-	775,000
Other Assets	-	-	-	134,750	-	-	-	-	18,235	152,985
Total Assets	\$ 83,290,611	\$ 15,201,535	\$ 18,668,773	\$ 23,997,773	\$ 57,713,212	\$ 3,332,164	\$ 828,884,375	\$ 3,127,222	\$ 23,539,016	\$ 1,057,754,681

UNIVERSITY OF SOUTH CAROLINA
Balance Sheet
University and Discretely Presented Component Units
June 30, 1999

	CURRENT FUNDS		LOAN FUND	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			AGENCY FUND	COMPONENT UNITS	TOTALS
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT			MEMORANDUM ONLY
LIABILITIES AND FUND BALANCES										
Accounts Payable	\$ 3,390,119	\$ 1,932,417	\$ 8,415	\$ -	\$ 2,950,350	\$ -	\$ -	\$ 741,867	\$ 1,118,408	\$ 10,141,576
Accrued Interest Payable	-	-	-	-	-	860,426	-	-	5,277	865,703
Accrued Payroll and Related Liabilities	4,863,070	351,449	-	-	-	-	-	-	-	5,214,519
Student Deposits	613,121	-	-	-	-	-	-	-	-	613,121
Unearned Student Revenues	2,920,787	-	-	-	-	-	-	-	-	2,920,787
Retainage Payable	935	-	-	-	2,987,231	-	-	-	-	2,988,166
Deferred Revenues	7,189,838	-	-	-	-	934,968	-	-	-	8,124,806
Due to Other Funds	-	5,106,163	-	-	-	350,000	-	-	-	5,456,163
Advance From Other Funds	-	-	-	-	-	-	775,000	-	-	775,000
Capital Lease Obligations	-	-	-	-	-	-	-	-	516,856	516,856
Installment Note Payable	-	-	-	-	-	-	507,335	-	-	507,335
Bond Anticipation Notes Payable	-	-	-	-	-	-	14,000,000	-	-	14,000,000
Bonds Payable	-	-	-	-	428,588	339,213	75,187,199	-	880,000	76,835,000
Notes Payable	-	-	-	-	-	-	-	-	4,990,763	4,990,763
Accrued Compensated Absences	17,538,460	-	-	-	-	-	-	-	431,929	17,970,389
Accrued Retirement Contributions Payable	-	-	-	-	-	-	-	-	114,818	114,818
Funds Held for Others	-	-	-	-	-	-	-	2,385,355	-	2,385,355
Other Liabilities	72,815	-	462	19,257	-	-	-	-	-	92,534
Total Liabilities	36,589,145	7,390,029	8,877	19,257	6,366,169	2,484,607	90,469,534	3,127,222	8,058,051	154,512,891
Total Fund Balances	46,701,466	7,811,506	18,659,896	23,978,516	51,347,043	847,557	738,414,841	-	15,480,965	903,241,790
Total Liabilities and Fund Balances	\$ 83,290,611	\$ 15,201,535	\$ 18,668,773	\$ 23,997,773	\$ 57,713,212	\$ 3,332,164	\$ 828,884,375	\$ 3,127,222	\$ 23,539,016	\$ 1,057,754,681

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
Statement of Changes in Fund Balances
For the Year Ended June 30, 1999

	CURRENT FUNDS		LOAN FUND	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			TOTALS MEMORANDUM ONLY
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Revenues and Other Additions								
Unrestricted Current Fund Revenues	\$ 450,456,879	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 450,456,879
State Appropriations - Restricted	-	14,147,534	-	-	-	-	-	14,147,534
U.S. Government Advance	-	-	227,648	-	-	-	-	227,648
Federal Grants and Contracts - Restricted	-	83,386,280	-	-	1,760,000	159,082	-	85,305,362
State Grants and Contracts - Restricted	-	8,539,444	-	-	-	-	-	8,539,444
Local Grants and Contracts - Restricted	-	603,218	-	-	42,984	-	-	646,202
Private Gifts, Grants, and Contracts - Restrict	-	26,501,709	25	222,988	5,764,200	40,000	3,697,681	36,226,603
Income on Endowment Assets - Restricted	-	333,726	-	402,872	-	-	-	736,598
Interest Income - Restricted	-	87,181	69,273	-	974,424	323,385	-	1,454,263
Interest on Loans Receivable - Restricted	-	-	418,172	-	-	-	-	418,172
Expended for Plant Facilities (Including \$13,232,906 charged to Current Funds Expenditures and Capitalized Interest of \$1,070,909)	-	-	-	-	-	-	67,493,016	67,493,016
Retirement of Indebtedness	-	-	-	-	-	-	5,810,189	5,810,189
Seat Assessment Fees	-	-	-	-	-	1,146,678	-	1,146,678
Student Tuition and Fees	-	-	-	-	-	7,757,867	-	7,757,867
Realized and Unrealized Gains and Losses, Net	-	-	-	74,064	-	-	-	74,064
Increase in Cash Surrender Value of Life Insuran	-	-	-	143,000	-	-	-	143,000
Litigation Settlement	-	-	-	-	75,663	-	-	75,663
Other Additions	-	210,244	132,214	-	11,858	-	-	354,316
Total Revenues and Other Additions	450,456,879	133,809,336	847,332	842,924	8,629,129	9,427,012	77,000,886	681,013,498
Expenditures and Other Deductions								
Education and General Expenditures	374,671,846	118,886,836	-	-	-	-	-	493,558,682
Auxiliary Enterprises Expenditures	53,278,270	-	-	-	-	-	-	53,278,270
Indirect Costs Recoveries Remitted to State General Fund	1,185,096	-	-	-	-	-	-	1,185,096
Indirect Costs Recovered	-	12,384,118	-	-	-	-	-	12,384,118
Bond Issuance and Other Costs	-	-	-	-	12,257	31,463	-	43,720
Loan Cancellations and Write-Offs	-	-	198,182	-	-	-	-	198,182
Administrative and Collections Costs	-	-	131,238	-	-	-	-	131,238
Refunded to Grantors	-	-	22,759	-	-	-	-	22,759
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$4,020,463)	-	-	-	-	57,209,664	-	-	57,209,664
Retirement of Indebtedness	-	-	-	-	-	5,810,189	-	5,810,189
Interest and Other Charges on Indebtedness	-	-	-	-	-	4,541,753	-	4,541,753
Disposal and Other Reductions of Plant Facilitie	-	-	-	-	-	-	9,763,305	9,763,305
Total Expenditures and Other Deductions	429,135,212	131,270,954	352,179	-	57,221,921	10,383,405	9,763,305	638,126,976

UNIVERSITY OF SOUTH CAROLINA
Statement of Changes in Fund Balances
For the Year Ended June 30, 1999

	CURRENT FUNDS		LOAN FUND	ENDOWMENT AND SIMILAR FUNDS	PLANT FUNDS			TOTALS MEMORANDUM ONLY
	UNRESTRICTED	RESTRICTED			UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Transfer Among Funds - Additions/(Deductions):								
Mandatory:								
Principal and Interest	(3,053,517)	-	-	-	-	3,053,517	-	-
Loan Fund Matching Grant	(75,883)	-	75,883	-	-	-	-	-
Non-Mandatory:								
Transfers from Current Funds:								
Unrestricted	(17,176,164)	-	-	526,619	15,960,425	609,120	80,000	-
Restricted	388,535	(2,071,864)	162	-	1,683,167	-	-	-
Transfer from Loan Fund	1,170	3,510	(4,680)	-	-	-	-	-
Transfer from Unexpended Plant Fund	-	-	-	-	(2,000)	2,000	-	-
Transfer from Retirement of Indebtedness Fund	-	-	-	-	3,130,091	(3,130,091)	-	-
Transfers of Debt Representing Proceeds Used for Plant Additions	-	-	-	-	7,399,561	-	(7,399,561)	-
Total Transfers	(19,915,859)	(2,068,354)	71,365	526,619	28,171,244	534,546	(7,319,561)	-
Net Increase (Decrease) for the Year	1,405,808	470,028	566,518	1,369,543	(20,421,548)	(421,847)	59,918,020	42,886,522
Fund Balance at Beginning of Year	45,295,658	7,341,478	18,093,378	22,608,973	71,768,591	1,269,404	678,496,821	844,874,303
Fund Balance at End of Year	\$ 46,701,466	\$ 7,811,506	\$ 18,659,896	\$ 23,978,516	\$ 51,347,043	\$ 847,557	\$ 738,414,841	\$ 887,760,825

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 1999

	UNRESTRICTED				
	EDUCATIONAL AND GENERAL	AUXILIARY ENTERPRISES	TOTAL	RESTRICTED	TOTAL
Revenues:					
Student Tuition and Fees	\$ 139,333,931	\$ 3,361,998	\$ 142,695,929	\$ -	\$ 142,695,929
State Appropriations	208,483,766	-	208,483,766	13,932,294	222,416,060
Federal Grants and Contracts	12,039,995	-	12,039,995	70,044,456	82,084,451
State Grants and Contracts	674,154	-	674,154	8,232,847	8,907,001
Local Grants and Contracts	1,010,217	-	1,010,217	669,084	1,679,301
Private Gifts, Grants, and Contracts	5,288,394	8,840,159	14,128,553	25,481,866	39,610,419
Endowment Income	307,918	71,425	379,343	284,207	663,550
Interest Income	579,727	1,650,966	2,230,693	32,217	2,262,910
Sales and Services of Educational and Other Activities	13,281,299	-	13,281,299	-	13,281,299
Sales and Services of Auxiliary Enterprises	-	49,956,323	49,956,323	-	49,956,323
Telephone Income	182,510	499,824	682,334	-	682,334
Royalty Income	85,769	300,095	385,864	-	385,864
Other Fees	1,787,348	490,888	2,278,236	-	2,278,236
Rental Income	585,335	694,216	1,279,551	-	1,279,551
Other Sources	720,611	230,011	950,622	209,865	1,160,487
Total Current Revenues	384,360,974	66,095,905	450,456,879	118,886,836	569,343,715
Expenditures and Mandatory Transfers:					
Educational and General:					
Instruction	186,257,652	-	186,257,652	1,744,714	188,002,366
Research	21,625,497	-	21,625,497	48,193,549	69,819,046
Public Service	15,160,333	-	15,160,333	36,081,489	51,241,822
Academic Support	49,292,230	-	49,292,230	37,562	49,329,792
Student Services	20,725,696	-	20,725,696	469,597	21,195,293
Institutional Support	36,182,477	-	36,182,477	80,640	36,263,117
Operation and Maintenance of Plant	30,066,135	-	30,066,135	71,620	30,137,755
Scholarships and Fellowships	15,361,826	-	15,361,826	32,207,665	47,569,491
Total Educational and General Expenditures	374,671,846	-	374,671,846	118,886,836	493,558,682
Mandatory Transfers for Loan Fund Matching Grants	75,883	-	75,883	-	75,883
Total Educational and General	374,747,729	-	374,747,729	118,886,836	493,634,565
Auxiliary Enterprises:					
Expenditures	-	53,278,270	53,278,270	-	53,278,270
Mandatory Transfers for Principal and Interest	-	3,053,517	3,053,517	-	3,053,517
Total Auxiliary Enterprises	-	56,331,787	56,331,787	-	56,331,787
Total Expenditures and Mandatory Transfers	374,747,729	56,331,787	431,079,516	118,886,836	549,966,352
Other Transfers and Additions/(Deductions):					
Nonmandatory Transfers In	4,523,989	-	4,523,989	3,510	4,527,499
Nonmandatory Transfers Out	(9,208,531)	(12,101,917)	(21,310,448)	(2,071,864)	(23,382,312)
Indirect Cost Recoveries Remitted to State	(1,185,096)	-	(1,185,096)	-	(1,185,096)
Excess of Restricted Receipts Over Transfers to Revenues	-	-	-	2,538,382	2,538,382
Total Other Transfers and Additions/ (Deductions)	(5,869,638)	(12,101,917)	(17,971,555)	470,028	(17,501,527)
Net Increases/(Decreases) in Fund Balances	\$ 3,743,607	\$ (2,337,799)	\$ 1,405,808	\$ 470,028	\$ 1,875,836

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
 Combined Statement of Activities - Component Units
For the Year Ended December 31, 1998

Revenues:

Patient Charges, Net of Contractual	
Adjustments and Refunds	\$ 17,314,118
Other Professional Income	6,881,768
Investment Income	524,688
Rental Income	381,009
Contributions to Educational Trust	
from other sources	916,177
Other Income	960,335
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Total Revenues	26,978,095
	<hr/>

Expenses:

Support of Medical School and	
Clinical Facilities	3,418,728
Operation of Clinical Facilities	21,342,955
Operation of Building and Equipment	2,026,198
Management and General	303,331
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Total Expenses	27,091,212
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Excess (Deficiency) of Revenues	
over Expenses	(113,117)
Other Comprehensive Income -	
Increase in Unrealized Investment	
Holding Gains	306,449
	<hr/>
Excess (Deficiency) of Revenues and	
Comprehensive Income over Expenses	193,332
Fund Balances, Beginning of Year	15,287,633
	<hr/>
Fund Balances, End of Year	\$ 15,480,965
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The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
 Combined Statement of Cash Flows - Component Units
For the Year Ended December 31, 1998

Cash Flows From Operating Activities

(Deficiency) of Revenues Over Expenses	\$ (113,117)
Adjustments to Reconcile(Deficiency) Excess of Revenues over Expenses to Net Cash provided by Operating Activities:	
Gain on the Sale of Investments	(151,129)
Undistributed Earnings on Investments	(67,656)
Gain on Retirement of Capital Leases	
Loss on Disposal of Equipment	17,660
Depreciation and Amortization	808,576
Provision for Uncollectible Accounts	155,735
(Increase) Decrease in:	
Patients Accounts Receivable	812,109
Other Receivables	(112,088)
Prepaid Items	118,172
Increase (Decrease) in:	
Accounts and Accrued Interest Payable	329,606
Accrued Compensated Absences	(30,609)
Accrued Retirement Contributions Payable	11,064
Net Cash Provided by Operating Activities	<u>1,778,323</u>

Cash Flows from Investing Activities

Proceeds from sale of investments	773,940
Cash paid for investments	(913,697)
Cash paid for property and equipment	(213,816)
Net cash used by investing activities	<u>(353,573)</u>

Cash Flows from Capital and Related Financing Activities

Principal repayments, capitalized lease obligations	(189,471)
Principal repayments, notes payable	(120,186)
Principal repayments, revenue bonds	(40,000)
Net cash used for capital and related financing activities	<u>(349,657)</u>

Net Increase in Cash and Cash Equivalents 1,075,093

Cash and Cash Equivalents, Beginning of Year 3,926,993

Cash and Cash Equivalents, End of Year \$ 5,002,086

The accompanying notes are an integral part of this financial statement.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the recognized standard - setting body for generally accepted accounting principles (GAAP) for all state governmental entities including colleges and universities. The accounting policies of the University of South Carolina conform to GAAP applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) *Audits of Colleges and Universities Industry Audit Guide*, as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements. Those FASB pronouncements issued on or before November 30, 1989, are authoritative provided they do not contradict or conflict with GASB guidance. However, GAAP prohibits the application of FASB guidance by governmental colleges and universities after that date. A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University and all of its component units blended in the primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of these powers. Based on these criteria, the University has determined this financial reporting entity includes the University (a primary entity) and all of its component units.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Primary Entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University is composed of the Columbia campus, the School of Medicine, and seven regional campuses. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees is composed of three ex-officio members which include the Governor (or his designee), the State Superintendent of Education, and the President of the Greater University of South Carolina Alumni Association; sixteen members elected by general vote of the General Assembly; and one at-large member appointed by the Governor. The Board is the governing body of the University and administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, the changes in fund balances, and the current funds revenues, expenditures, other changes of university funds and the financial position, activities, and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

Component Units Blended in Primary Entity - In Discrete Column and Separate Financial Statement Presentation

Based on the application of the above criteria, certain component units are included in the reporting entity because of the significance of their operational or financial relationships with the University. The following identifies the University's component units and the methods of reporting them in these financial statements.

The University of South Carolina School of Medicine Educational Trust (the "Trust") and Clinical Faculty Practice Plan (the "Practice Plan") are component units of the University which are blended in the primary entity in a discrete column on the balance sheet. Separate statements of activities and cash flows are presented for these component units. The Trust is organized and operates exclusively for the benefit of the University's School of Medicine in order to augment and aid education, service, research and development in the health sciences and in the

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Units Blended in Primary Entity - In Discrete Column and Separate Financial Statement Presentation (Continued)

fields of preventive and curative medicine. In conjunction with these functions, the Trust oversees the Practice Plan which exists to provide high quality health care in conjunction with enhanced teaching opportunities. The School of Medicine has reserved the right to terminate the Practice Plan at any time upon the vote of two-thirds of the participating clinical faculty members and upon the approval of the Dean of the School of Medicine and the University's Board of Trustees. However, in conjunction with the issuance of certain revenue bonds (see Note 4) the University has agreed not to permit the termination of the Practice Plan at any time prior to full repayment, including interest, of such bonds.

The Trust is considered a component unit because the University has appointment authority of its board. The Practice Plan is considered a component unit because it is governed by the board of directors of the Trust. Due to the controlled governance by the University and primary purposes of the Trust and Practice Plan to provide services almost entirely to the University, they must be presented as blended component units in accordance with GASB Statement 14 *The Financial Reporting Entity* guidance. The transactions between the University and these component units will not agree in the accompanying financial statements because they have different fiscal year-ends. All activity reported for the component units including the information shown in the Notes to the Financial Statements is as of and for the year ended December 31, 1998. Complete financial statements of the Trust and the Practice Plan can be obtained at the administrative office of the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina, 29202.

The Faculty House of Carolina, Incorporated (the "Faculty House") a not-for-profit corporation, is a component unit of the University which is blended in the primary entity as an auxiliary enterprise in the unrestricted current funds group. The Faculty House operates on the Columbia campus for the benefit of the University as a private dining and social activities club for members.

The Faculty House is considered a component unit because the University has appointment authority of its board and is presented as a blended component unit. All activity reported for the Faculty House is as of and for the year ended August 31, 1998. Complete financial statements of the Faculty House can be obtained at the administrative office of the Faculty House of Carolina, Inc., McCutchen House, University of South Carolina, Columbia, South Carolina, 29208.

Presentation of Component Units

Some component units, despite being legally separate, are so intertwined with the University that they are, in substance, the same as the primary entity. Such component units' balances and transactions are blended with those of the primary entity, i.e., reported in the applicable university fund groups as if they were balances and transactions of the primary entity or reported in discrete columns and included in the "primary entity" totals.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Presentation of Component Units (Continued)

Discrete presentation entails reporting aggregated component unit financial data which has not been converted to the AICPA college and university model in separate columns or on separate financial statements of the primary entity. The columns and financial statements are labeled "component units."

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant and equipment assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for academic sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant; agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library materials; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

Basis of Accounting - Discretely Presented Component Units

The University's discretely presented component units conduct business-like activities similar to those found in the private sector. They are financed primarily through user charges. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of operating results, financial position, and cash flows.

The accounting policies of these entities conform to GAAP applicable to governmental not-for-profit activities as prescribed by GASB. Effective for fiscal year ended December 31, 1996, these component units implemented GASB Statement 29 *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*. That statement provides that governmental entities that heretofore applied the non-for-profit accounting and reporting principles prescribed in the AICPA's Statement of Position (SOP) 78-10 have two options regarding their reporting model, the governmental model or the AICPA not-for-profit model. These University component units are considered governmental in nature and therefore subject to the governmental accounting model.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting - Discretely Presented Component Units (Continued)

The accounting policies of these entities conform to GAAP applicable to governmental proprietary activities as prescribed by GASB. The University's discretely presented component units, as governmental entities that heretofore have applied not-for-profit accounting principles under the guidance of the Financial Accounting Standards Board (FASB), apply all accounting and financial reporting principles contained in SOP 78-10 as modified by applicable GASB and FASB pronouncements. Since the University's discretely presented component units are self-supporting, they have adopted paragraph 7 of GASB Statement 20 pertaining to enterprise funds and are applying all FASB statements and interpretations issued after November 30, 1989, except those that conflict or contradict with GASB pronouncements.

These entities use the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred.

Fund Accounting - University Funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or unless the endowment agreement requires the income to be added to the corpus.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year.

Auxiliary enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include athletics, housing, bookstores, food services, student health services, parking operations, coliseum operations, and the Faculty House. The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was \$13,995,047 at June 30, 1999.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, charges for collectibility allowances, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment and Similar Funds* group includes endowment funds, term endowment funds, and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Some endowments require the income to be used for specified purposes and others contain no such restrictions. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

of an endowment and subsequent additions and realized and unrealized gains/losses attributable to investment transactions.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources and any debt related to unexpended resources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. Receipts legally designated solely for plant improvements or debt service related to plant assets are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically accumulated for interest and principal payments, debt service reserve funds, other debt service charges related to plant fund indebtedness, bonds payable related bond discounts, and federal interest subsidies. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, and other groups directly associated with the University.

Fund Accounting - Discretely Presented Component Units

The University's discretely presented component units apply the accounting and financial reporting principles contained in Statement of Position 78-10 (Accounting Principles and Reporting Practices for Certain Nonprofit Organizations), promulgated by the American Institute of Certified Public Accountants, as modified by applicable GASB and FASB pronouncements. Since the Entity is self-supporting, it has adopted paragraph 7 of GASB 20 pertaining to enterprise funds and applies all FASB pronouncements except those that conflict with GASB. The funds of the Trust and Practice Plan are unrestricted, comprised of four designated groups. The four groups relate to support of the medical school and clinical facilities, operation of clinical facilities, operation of building and equipment of the Trust and Practice Plan, and educational trust general operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental and private grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Effective January 1, 1999, federal training grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments. The liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for payments of principal and interest on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant funds as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as land improvements and values them at cost.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

Construction expenditures for major additions and renovations to plant facilities are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

All library books, periodicals, microfilms, and other library materials are recorded at cost or fair market value at the date of donation. Library books deletions are written off at year end at average cost based on the actual number of volumes deleted. Equipment with a unit value in excess of \$5,000 and having an expected life in excess of two years have been capitalized. Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts and in the investment in plant funds subgroup.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup include such interest costs.

Bond Discounts and Amortization:

Deferred charges consisting of bond discounts are reported in the asset section of the balance sheet of the retirement of indebtedness plant funds subgroup and are amortized as an element of interest on indebtedness over the lives of the bonds using the straight-line method. Amortization of deferred charges is reported as an addition to interest and other charges on indebtedness.

Deferred Revenues and Unearned Student Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for athletic events which amounts have not been earned. Unearned student revenues consist primarily of student tuition and fees and room and board collected in advance for the summer and fall academic terms. In retirement of indebtedness plant funds subgroup, deferred revenues consist of seat assessment fees related to receipts collected in advance for athletic events.

Student Deposits

Student deposits represent security deposits for possible room damage and key loss and other deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fee Waivers (Continued)

The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Educational and Other Activities Revenue

Revenues from sales and services of educational activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from charges for continuing education programs. Other activities revenues in this account include copy rental, University Press, and computer center activities.

Prepaid Items

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 15.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Investments in the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted at the end of each month and is retained by the University. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the percentage ownership in the pool.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The University has no rebatable arbitrage liability at June 30, 1999.

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds and for the component units involved. Reimbursement transactions for expenditures initially made by one fund or component unit that are applicable to another are recorded as expenditures in the reimbursing fund or component unit. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated. Interfund transactions between discretely presented component units have not been eliminated. However, transfers between discretely presented component units are considered operational in nature and are included in excess of revenues over expenditures.

Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns of the financial statements present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data except material expenditure reimbursements and certain other intraentity transactions and balances between the University and component units blended in the University's funds.

Discretely Presented Component Unit Accounting Policies

Significant accounting policies of the University's discretely presented component units are described below. Whereas, general disclosure for such entities are separately identified within each applicable note.

Patient Charges and Accounts Receivable

The Practice Plan, through their affiliation with a local hospital which serves as a regional medical and trauma center, serves a number of indigent patients who are not covered under any type of insurance. Certain gross charges are subject to adjustment by third party reimbursers and a percentage of patients do not meet their obligation. Therefore, Practice Plan patient accounts receivable are recorded net of estimated indigent care and contractual adjustments as well as an allowance for doubtful accounts.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Support

In accordance with the terms of the Practice Plan agreement, as amended, a certain percentage of gross Practice Plan professional revenues is contributed to the Dean's Academic Enhancement subfund of the Trust and to the Departmental Operations subfund. The percentages, currently 7.0 percent and 1.0 percent, are authorized by the Board of Trustees of the University. The contributions in 1998 were \$1,692,561 and \$236,652 respectively. In addition, operating units of the Trust and Practice Plan, which utilize building space, transfer funds in lieu of rent payments. Additionally, net cash-basis revenues are contributed to the Trust by the Practice Plan annually. The transfer for support in 1998 was \$2,343,328. To the extent that total amounts due from the Practice Plan to the Trust have not been deposited by the Trust as of December 31, such amounts are reflected in the combined balance sheet account "due between component units".

Building and Equipment

The Trust and the Practice Plan assets are recorded at historical cost. Depreciation is recognized on these assets over their estimated useful lives as follows:

	<u>Method</u>	<u>Estimated Useful Life</u>
Buildings	Straight-line	40
Leasehold improvements	Straight-line	31.5-39
Furniture and office equipment	Double-declining balance	5-7
Medical equipment	Double-declining balance	7

Depreciation recognized in the plant funds of the Trust and the Practice Plan during the current year totals \$807,174.

Amortization

Loan costs related to the Trust's acquisition of two buildings are being amortized using the straight-line method over the lives of the respective loans as follows:

Medical Park II	5 years
Medical Park IV	20 years

Amortization recognized in the current year totals \$1,402. The unamortized balance at December 31, 1998, is \$18,235.

Compensated Absences

The Trust and the Practice Plan reimburse the University of South Carolina for the salaries and fringe benefits of non-faculty personnel. Additionally, funds are contributed to the University of South Carolina in support of the salaries of certain faculty personnel. These organizations have various policies concerning the accrual of vested vacation compensation. The liability for accrued compensated absences as of December 31, 1998 reflects the value of such compensation earned but not yet utilized, including fringe benefits.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Trust is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation within the meaning of Section 509(a). A tax return is filed to report the operations of the Trust and the departments of the Practice Plan.

Cash and Cash Equivalents

The amounts shown for the Trust and the Practice Plan in the cash flows statement as "cash and cash equivalents" represent balances in demand deposit bank accounts, money market funds, and certificates of deposit having maturities of three months or less.

Investments

Investments consist of long-term certificates of deposit, obligations of the U.S. Treasury, equity securities, and mutual funds. Investments in marketable debt and equity securities are considered to be available for sale, therefore, they are carried at fair value. Unrealized gains are reported as other comprehensive income and are reflected as a separate component of fund balance.

Other Professional Income

Other professional income consists of revenue earned by the participants in the Practice Plan for the provision of medically-related services other than Practice Plan patient care. The primary sources of this revenue are contractual arrangements with eleemosynary organizations.

Other Income

Other income consists primarily of revenue received by participating clinics in the form of support to defray operating expenses.

Comprehensive Income

(The following disclosure was extracted from the footnote disclosure of the Trust and Practice Plan). In June 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 130, "Reporting Comprehensive Income" which became effective in 1998. Statement No. 130 requires presentation of comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in the financial statements. Other comprehensive income is comprised of unrealized investment gains. Accumulated other comprehensive income consists solely of accumulated net increases in unrealized investment gains. (FASB No. 130 is not GAAP for governmental entities).

NOTE 2 - STATE APPROPRIATIONS

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

The original appropriation is the University's base budget amount presented in the General Funds column of Sections 5KA through KH of Part IA of the 1998-99 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1999:

Original Appropriation	\$187,298,188
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State Budget and Control Board Allocations:

Employee Pay Plan Increases (Proviso 63C.12.)	2,606,939
Employer Contributions Related to Pay Plan	415,807
Employer Contributions for Health Insurance Increase	327,888
Health/Dental Insurance - Retirees	197,183
Annualization of Pay Plan (Part III of 1999 Act)	1,011,436
Allendale Initiative (Part III of 1999 Act)	125,000

Appropriation Allocations from the State

Commission on Higher Education:

Performance Funding	4,195,720
Performance Improvement Award	132,442
Palmetto Fellows Scholarships	2,382,803
Need-Based Student Grants	3,175,559
Life Scholarships	7,561,970
Star Scholarships	404,331
Academic Endowment Incentive Funding	264,631
Access and Equity	89,394
Access and Equity Competitive Grant	9,000

Supplemental Appropriations from 1998 Surplus

State Revenues:

From Part III of the 1999 Act:

Small Business Development Center	191,398
African American Professors Program	150,000

From Part III of the 2000 Act:

Institute of Public Affairs - Civic Education	195,000
Small Business Development Center	191,398
African American Professors Program	200,000

Capital Reserve Fund Appropriations (June 1998 Joint Resolution)

Higher Education Institutional Funding	10,746,973
Law Library	400,000

Transfers from the Department of Revenue for Education

Improvement Act (Part IA, Section 1X.K and Provisio 1A.35. of the 1999 Act):

Writing Improvement Network	318,240
S.C. Geographic Alliance	<u>40,000</u>

State Appropriations Revenue	<u><u>\$222,631,300</u></u>
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UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 2 - STATE APPROPRIATIONS (CONTINUED)

State appropriations revenue is reported in the following funds:

Unrestricted Current Funds	\$208,483,766
Restricted Current Funds	<u>14,147,534</u>
	<u>\$222,631,300</u>

As authorized by Part III of the 2000 Act, the University carried forward \$586,398 of appropriations to fiscal year 2000.

The University recognized the following revenues from the State Commission on Higher Education as state grants and contracts revenue in the restricted current funds group.

Centers for Excellence Program	\$287,980
Higher Education Awareness Program	9,621

In addition, the University received from the State Commission on Higher Education \$2,500,000 for the South Carolina Experimental Program to Stimulate Competitive Research (EPSCOR) Program and \$600,000 for the South Carolina Alliance for Minority Participation Program (SCAMP). The University as fiscal agent accounted for the programs through its agency funds. The University recognized revenues of \$1,570,558 from the EPSCOR Program and \$345,587 from the SCAMP Program which are reported as state grants and contracts revenue in the restricted current funds group.

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In prior years, the State authorized funds for improvements and expansion of various facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue and the bond issue costs as expenditures in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balances available from these authorizations during the year ended June 30, 1999, follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 1999</u>	<u>Balance Authorized June 30, 1999</u>
Act 522 of 1992	\$39,560,130	\$36,935,069	\$2,593,158	\$ 31,903
Act 111 of 1997	<u>31,541,065</u>	<u>3,354,943</u>	<u>7,059,796</u>	<u>21,126,326</u>
Total	<u>\$71,101,195</u>	<u>\$40,290,012</u>	<u>\$9,652,954</u>	<u>\$21,158,229</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS (CONTINUED)

The entire balance is reported in the unexpended plant funds subgroup. The University is not obligated to repay these funds to the State.

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE

Bonds Payable

At June 30, 1999, bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 1999 Balance</u>
<u>University</u>			
State Institution Bonds			
Series 1993B	4.3% to 4.65%	04/01/03	\$ 6,755,000
Series 1996B	5.0% to 7.00%	04/01/16	27,505,000
Revenue Bonds			
Series 1996	5.3% to 6.8%	06/01/26	24,350,000
Series 1997	5.25% to 5.6%	06/01/17	4,235,000
Series 1999	4.0% to 5.0%	06/01/19	4,995,000
Plant Improvement Bonds			
Series 1971	5.4%	12/01/00	180,000
Parking Facilities Revenue Bonds Series 1995	4.75% to 5.00%	05/01/15	<u>7,935,000</u>
			75,955,000
<u>Component Unit</u>			
Revenue Bonds	6.2% to 8.2%	12/01/03	<u>880,000</u>
Total			<u>\$76,835,000</u>

The University receives interest subsidies from the U.S. Department of Education designated for revenue bonds and plant improvement bonds. The various bond indentures restrict the use of particular revenue sources. State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition paid to the University is restricted up to the amount of annual debt requirements for the payment of principal and interest on state institution bonds. Revenue received for dormitory and married student housing, parking facilities and any loan subsidies is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on revenue and parking facilities revenue bonds. Plant improvement bonds are retired from loan subsidies received and the reserve fund accumulated with the State Treasurer.

The University purchased a bond insurance policy for the Parking Facilities Revenue Bonds - Series 1995 in lieu of establishing a debt service reserve fund. The insurance policy guarantees payment of the debt service reserve on behalf of the University for up to \$966,690 to the final maturity of the bonds. The University also purchased a bond insurance policy for each series of auxiliaries revenue bonds which guarantees payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Bonds Payable (Continued)

During fiscal year 1999, the University issued revenue bonds in the amount of \$4,995,000. Related bond issue costs totaled \$12,257 and are recorded as expenditures in the unexpended plant fund subgroup. The proceeds were used to purchase and make renovations to housing facilities. Related bond discounts totaled \$44,257 and are recorded in the retirement of indebtedness fund subgroup to be amortized over the life of the bonds using the straight-line method.

The bond documents outline certain covenant terms to secure the bonds. For the state institution bonds, the University must maintain its tuition fees at amounts necessary to meet annual debt service requirements. For revenue bonds, the University must generate net revenues available for debt service of not less than 100 percent of debt service payments due in each bond year. In addition, the University must establish and maintain debt service funds with the South Carolina State Treasurer for payment of principal and interest for all bonds.

Also for the plant improvement bonds, the University has debt service reserve requirements and balances on deposit of \$97,290 and \$202,358 at June 30, 1999.

Certain of the University's bonds may be redeemed at a premium or at par prior to the mandatory redemption dates and final maturities at the option of the University. The bond redemption prices (expressed as a percentage of the principal redeemed) are as follows:

<u>Bond</u>	<u>Range</u>
State Institution Bonds:	
Series 1996B	2.0% from 04/01/06 through 03/31/07 1.0% from 04/01/07 through 03/31/08 Par from 04/01/08 through maturity
Revenue Bonds	
Series 1996	1.0% from 06/01/06 through 05/31/07 Par from 06/01/07 through maturity
Series 1997	1.0% from 06/01/07 through 05/31/08 Par from 06/01/08 through maturity
Series 1999	1.0% from 06/01/09 through 05/31/10 Par from 06/01/10 through maturity
Plant Improvement Bonds:	
Series 1971	1.0% from 1999 through maturity 2000
Parking Facilities Revenue Bonds -	
Series 1995	2.0% from 05/01/05 through 04/30/06 1.0% from 05/01/06 through 04/30/07 Par from 05/01/07 through maturity

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue, parking facilities and plant improvement bond obligations as of June 30, 1999 are as follows:

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Bonds Payable (Continued)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 1,405,000	\$ 2,293,120	\$ 3,698,120
2001	1,445,000	2,199,400	3,644,400
2002	1,415,000	2,124,688	3,539,688
2003	1,135,000	2,048,940	3,183,940
2004	1,200,000	1,986,302	3,186,302
2005 through 2026	<u>35,095,000</u>	<u>22,334,310</u>	<u>57,429,310</u>
Total Obligations	<u>\$41,695,000</u>	<u>\$32,986,760</u>	<u>\$74,681,760</u>

Amounts including interest required to complete payment of the state institution bonds as of June 30, 1999 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 2,570,000	\$ 1,783,947	\$ 4,353,947
2001	2,705,000	1,646,706	4,351,706
2002	2,840,000	1,521,356	4,361,356
2003	2,985,000	1,365,681	4,350,681
2004	1,250,000	1,209,400	2,459,400
2005 through 2016	<u>21,910,000</u>	<u>7,883,650</u>	<u>29,793,650</u>
Total Obligations	<u>\$34,260,000</u>	<u>\$15,410,740</u>	<u>\$49,670,740</u>

Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement are recorded directly in the retirement of indebtedness subgroup as student tuition and fees revenues. Mandatory transfers from auxiliary enterprises revenue for debt retirement of revenue bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

In prior years, the University defeased various bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments (principal and interest) on the old bonds. As a result because the bonds are considered defeased, the liability for the defeased bonds has been removed from the University's investment in plant funds subgroup and the trust account assets are not included in these financial statements. At June 30, 1999, \$5,865,000 (\$820,000 attributable to Coastal Carolina University) for state institution bonds and \$1,050,000 of parking facilities revenue bonds are considered defeased.

Bond Anticipation Notes

The University uses bond anticipation notes to temporarily finance capital additions and intends to refinance these obligations over a longer period of time in the future through permanent financing. Usually within a year, a long-term bond is issued to repay the bond anticipation notes. The funds to retire the outstanding notes will be obtained through certain stadium seat assessment fees and student fees, as well as additional temporary refinancing and permanent financing. The seat assessment fees are recorded directly in the retirement of indebtedness fund subgroup of the plant funds group.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Bond Anticipation Notes (Continued)

Of the \$16,075,000 in bond anticipation notes outstanding at June 30, 1998, \$14,000,000 was refinanced. Athletic facilities revenue bond anticipation notes issued in February 1999 in the amount of \$14,000,000 and outstanding at June 30, 1999, are due in February 2000 and bear a net interest rate of 2.9642%.

Summary of Current Year Expenditures

The University reported principal payments and interest expenditures related to bonds and bond anticipation notes for the year ended June 30, 1999, as follows:

	<u>Principal Payments</u>	<u>Interest Expenditures</u>
Bonds Payable	\$3,693,000	\$4,017,425
Bond Anticipation Notes	<u>2,075,000</u>	<u>507,606</u>
	<u>\$5,768,000</u>	<u>\$4,525,031</u>

Interest and other charges on indebtedness expenditures for the current year include \$10,580 for bond discount amortization. The University capitalized \$1,070,909 of interest expenditures as part of construction in progress.

Debt Service Limitation On State Institution Bonds

S.C. Code of Laws Section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees (as defined by Code Section 59-107-30) for the preceding fiscal year. Tuition fees for the fiscal year ended June 30, 1998, were \$6,597,208, which results in a legal annual debt service limit at June 30, 1999, of \$5,937,487. The annual debt service payments for the fiscal year ended June 30, 1999 were \$4,361,366.

Debt Attributable to Component Units

On March 5, 1992, the Trust acquired a building known as Medical Park II. The building is currently utilized for the operations of seven of the Departments participating in the Practice Plan, as well as outside entities.

In conjunction with the acquisition, the Trust authorized and issued a series of notes known as the "University of South Carolina School of Medicine Educational Trust Revenue Notes (Medical Park II Office Building Project) Series 1992". These notes consist of the following:

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Debt Attributable to Component Units (Continued)

	Balance Beginning <u>of Year</u>	Debt Repaid	Balance End of <u>Year</u>
(R-1) A tax-exempt note covering that portion of the purchase price which relates to the rental of space to Practice Plan. Original principal balance \$3,990,000. Payable in monthly installments of \$27,398, including interest at 7.175%.	\$3,647,945	\$ (75,079)	\$3,572,866
(R-2) A taxable refinancing note covering the difference between the balance of the prior loan on the property and the principal amount of the tax exempt note. Original principal balance \$669,958. Payable in monthly installments of \$6,018 including interest at 10.15%.	636,548	(7,963)	628,585
(R-3) A variable rate note covering the difference between the purchase price and the first two notes. Original principal balance \$1,040,042. Payable in monthly installments of \$3,095 plus interest at floating prime.	<u>826,456</u>	<u>(37,144)</u>	<u>789,312</u>
Total	<u>\$5,110,949</u>	<u>\$(120,186)</u>	<u>\$4,990,763</u>

Interest expense on these notes was \$386,160 for the year ended December 31, 1998.

Management expects to refinance the notes on or before maturity on December 1, 1999.

As security for the revenue notes, the Trust has executed a Leasehold Mortgaging and Financing Agreement, as well as an Assignment of Leases, Rents and Profits for the benefit of noteholders. These agreements grant to noteholders a leasehold mortgage on the building as well as a security interest in the project revenues and provide for the establishment of an operating reserve. The Trust has established operating accounts which are maintained by the property management and leasing agent.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Debt Attributable to Component Units (Continued)

On December 1, 1991, the Trust acquired a building known as Medical Park IV. The building is currently utilized by two of the departments which participate in the Practice Plan.

In conjunction with this acquisition, the Trust issued revenue bonds known as "University of South Carolina School of Medicine Educational Trust Revenue Bonds (Medical Park IV Medical Office Building Project) Series 1991".

Principal Due Date <u>December 1</u>	Amount <u>Annually</u>	Interest <u>Rate</u>	Due Date <u>December 1</u>	Principal Amount <u>Annually</u>	Interest <u>Rate</u>
1999	\$45,000	6.2%	2006	\$ 70,000	6.9
2000	50,000	6.4	2007	75,000	7.0
2001	50,000	6.6	2008	80,000	7.0
2002	55,000	6.7	2009	85,000	7.0
2003	60,000	6.8	2010	90,000	7.0
2004	60,000	6.9	2011	95,000	7.0
2005	65,000	6.9			

Total Revenue Bonds Issued 1,125,000

Principal Payments Made Since Inception (245,000)

Revenue Bonds Outstanding 880,000

Portion Due Currently (45,000)

Long-term Portion \$ 835,000

Principal paid and interest expense on the bonds payable were \$40,000 and \$63,330 for the year ended December 31, 1998.

Principal and interest payments for the five years subsequent to December 31, 1998, and thereafter, amount to the following.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 45,000	\$ 60,330	\$ 105,330
2000	50,000	57,540	107,540
2001	50,000	54,340	104,340
2002	55,000	51,040	106,040
2003	60,000	47,640	107,640
Thereafter	<u>620,000</u>	<u>209,525</u>	<u>829,525</u>
Total	<u>\$880,000</u>	<u>\$480,415</u>	<u>\$1,360,415</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 4 - BONDS PAYABLE, BOND ANTICIPATION NOTES, AND NOTES PAYABLE (CONTINUED)

Debt Attributable to Component Units (Continued)

Bonds maturing on or before December 1, 2001, are not subject to early redemption. Bonds maturing subsequent to that date are subject to early redemption at a specified premium at the option of the Trust upon 45 days of prior written notice.

These bonds are limited obligations of the Trust, with debt service to be paid solely from receipts derived from leasing the project.

As security for the bonds, the Trust has executed a Leasehold Mortgaging and Financing Agreement, as well as an Assignment of Leases, Rents and Profits for the benefit of bondholders. These agreements grant to bondholders a leasehold mortgage on the building as well as a security interest in the project revenues and provide for the establishment of an operating reserve. The Trust has established operating accounts which are maintained by the property management and leasing agent.

NOTE 5 - INSTALLMENT NOTES PAYABLE

In the current year, the University made borrowings under the State Treasurer's Office's Master Lease/Purchase Program. Capital asset acquisitions were financed by loans of \$214,119 in this fiscal year. The expenditures were recorded in unrestricted current funds. At June 30, 1999, the University had a bank note payable outstanding, as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance</u>
Note dated March, 1999	3.793%	March, 2004	\$204,316

Proceeds from the note in the amount of \$214,119 were used to purchase telephone equipment. The note is collateralized by these items. As required by the note agreement, the University must, at its own cost and expense, preserve and keep the equipment in good repair, working order and condition. Future payments on these notes payable are to be funded from unrestricted current funds.

The note is payable in quarterly installments plus interest. Amounts including interest required to complete payment of the note as of June 30, 1999, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 40,029	\$ 7,186	\$ 47,215
2001	41,569	5,646	47,215
2002	43,169	4,046	47,215
2003	44,829	2,386	47,215
2004	<u>34,750</u>	<u>661</u>	<u>35,411</u>
Total Obligations	<u>\$204,346</u>	<u>\$19,925</u>	<u>\$224,271</u>

Payments for fiscal year 1999 were \$11,804, of which \$2,030 represented interest.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 5 - INSTALLMENT NOTES PAYABLE (CONTINUED)

In addition, in 1995, the University entered into an installment agreement to purchase a rare book collection (Matthew J. Bruccoli Collection of F. Scott Fitzgerald) for \$800,000 without interest. The installment note is payable in annual installments of \$60,000 through fiscal year 2005. Payments totaling \$60,000 in 1999 were made by the University (\$20,000) and the University of South Carolina Educational Foundation (\$40,000), a related party on behalf of the University. Interest expense has been imputed at 5.16%. The note is secured by the rare book collection. Expenditures for principal and interest for fiscal year 1999 were \$42,189 and \$17,811. These expenditures and the \$40,000 in private gifts funding from the Foundation were recorded in the retirement of indebtedness subgroup. The value of the \$360,000 liability (net of imputed interest) at June 30, 1999, was \$302,989.

Amounts including interest required to complete payment of the note as of June 30, 1999, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 44,366	\$15,634	\$ 60,000
2001	46,655	13,345	60,000
2002	49,062	10,938	60,000
2003	51,594	8,406	60,000
2004	54,256	5,744	60,000
2005	<u>57,056</u>	<u>2,944</u>	<u>60,000</u>
Total Obligations	<u>\$302,989</u>	<u>\$57,011</u>	<u>\$360,000</u>

Payments for fiscal year 1999 were \$60,000, of which \$17,811 represented interest.

NOTE 6 - LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of real property and equipment.

Future commitments for the operating leases having remaining noncancelable terms in excess of one year as of June 30, 1999, were as follows:

<u>Year Ending June 30</u>	<u>Operating Leases</u>	
	<u>Real Property</u>	<u>Equipment</u>
2000	\$ 852,748	\$ 66,567
2001	135,396	60,237
2002	60,500	-
2003	56,750	-
2004	56,750	-
2005 and after	<u>255,000</u>	<u>-</u>
Total Minimum Lease Payments	<u>\$1,417,144</u>	<u>\$126,804</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 6 - LEASE OBLIGATIONS (CONTINUED)

Operating Leases

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 1999 through 2031. These noncancelable operating leases include agreements between the University and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options for periods from 1999 to 2031 at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. The University entered into an agreement to lease real estate (9.3) acres from Spartanburg County (County) on May 20, 1997. The lease was contingent upon the University's purchase of an apartment complex located on the County property. Under the terms of the agreement the University will pay the County one dollar per year through June 1, 2031 for the use of the land.

Total operating lease expenditures in 1999 were \$987,867 for other real property and \$99,165 for equipment. The University reports these costs in the applicable current funds functional expenditure categories.

Obligations Attributable to Component Units

The Trust acquired buildings known as Medical Park IV and Medical Park II in December 1991 and March 1992. Rent revenue is received from non-Practice Plan entities who occupy space in the two buildings. Additionally, the various operating units of the Trust and Practice Plan which utilize the building space transfer funds in lieu of rent. Rents are utilized by the Trust for debt service and operating expenses.

The Trust operates the two buildings for the benefit of the University's School of Medicine in the training of Clinical Practice Department students. The acquisitions were financed by issuance of revenue bonds and notes totaling \$6,825,000. The University owns title to the land and has a ground lease with the Trust which provides for annual rents ranging from \$64,460 to \$77,996 through 2011 and \$49,193 to \$59,523 from 2012 to 2025.

The land upon which the Medical Park II and Medical Park IV buildings are located is the property of the University of South Carolina School of Medicine and is being leased to the Trust as follows:

	<u>Medical Park II</u>	<u>Medical Park IV</u>	<u>Totals</u>
Term of Lease	33 years	20 years	
Termination Date	February 1, 2025	December 1, 2011	
Land Lease Payment			
1999	\$ 36,960	\$ 27,500	\$ 64,460
2000	36,960	27,500	64,460
2001	36,960	30,250	67,210
2002	36,960	30,250	67,210
2003	40,656	30,250	70,906
Thereafter	<u>1,044,363</u>	<u>254,375</u>	<u>1,298,738</u>
Total	<u>\$1,232,859</u>	<u>\$400,125</u>	<u>\$1,632,984</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 6 - LEASE OBLIGATIONS (CONTINUED)

Obligations Attributable to Component Units (Continued)

Ground Lease expense of \$64,460 was paid by the Trust to the University. The University included the rental income in unrestricted current funds.

The bond and note resolutions require the Trust to convey ownership of each building to the University at such time as all acquisition indebtedness has been retired.

The Trust Departmental Subfund as well as the Departments of Orthopedics, Obstetrics and Gynecology, Surgery, Internal Medicine and Diagnostic Center have acquired certain office and medical equipment under capital lease arrangements. The following is a summary of capital lease obligations at December 31, 1998:

	<u>Clinics</u>	<u>Trust</u>	<u>Total</u>
Obligations under capital leases,			
Balance at December 31, 1997	\$225,628	\$ 78,800	\$304,428
Obligations acquired in current year	311,724	-	311,724
Repayments in current year	<u>(75,014)</u>	<u>(24,282)</u>	<u>(99,296)</u>
Obligations under capital leases,			
Balance at December 31, 1998	<u>\$462,338</u>	<u>\$ 54,518</u>	516,856
Obligations under capital leases,			
Current portion			<u>156,472</u>
Obligations under capital leases,			
Due after one year			<u>\$360,384</u>

Interest expense for capital leases was \$38,575 for the year ended December 31, 1998.

The following is a schedule by years of future minimum lease payments under capital lease payments together with the present value of net minimum lease payments as of December 31, 1998:

<u>Year Ending December 31:</u>	<u>Minimum Lease Payments</u>
1999	\$198,894
2000	178,595
2001	103,378
2002	90,979
2003	48,253
2004 and thereafter	<u>10,675</u>
Total Minimum Lease Payments	630,774
Less Amounts Representing interest	<u>(113,918)</u>
Present Value of Net Minimum Lease Payments	<u>\$516,856</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 7 - NONMANDATORY TRANSFERS

Tuition, fees, and revenues pledged for debt service and required to be deposited in the retirement of indebtedness funds subgroup remain in that subgroup until they are expended for debt service requirements or transferred by the State Treasurer. Such funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service as required by bond indentures and law.

For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers available funds into a general capital improvements funding account which the University reports in the unexpended plant funds subgroup. In fiscal year 1999, the University transferred \$3,130,091 for that purpose which is reported as a nonmandatory transfer. The unexpended balance in the general capital projects funding account of the unexpended plant funds subgroup is reported in unrestricted fund balance. During the current year, the University transferred \$5,446,956 within that subgroup from the general capital improvements funding account to finance specific capital projects. Unexpended balances in specific project accounts are reported in restricted fund balances.

For revenue bonds issued by the University, transfer of available funds in excess of required minimum balances is requested by the University to the State Treasurer. The University did not transfer any funds in fiscal year 1999.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 7 - NONMANDATORY TRANSFERS (CONTINUED)

In addition, during fiscal year 1999, the University made the following transfers:

<u>From</u>	<u>FUND</u> <u>To</u>	<u>Amount</u>	<u>Purpose</u>
Unrestricted Current	Quasi-Endowment	\$ 526,619	Transfer of funds to quasi-endowment as authorized by Board.
Unrestricted Current	Unexpended Plant	15,960,425	Financing of construction projects.
Unrestricted Current	Retirement of Indebtedness	609,120	Funding of debt service.
Unrestricted Current	Investment in Plant	80,000	Fund repayment of advance between funds.
Restricted Current	Unrestricted Current	388,535	Residual funds from fixed price contracts.
Restricted Current	Unexpended Plant	1,683,167	Financing of construction projects.
Restricted Current	Loan	162	FSEOG to Federal Perkins Loan funds.
Loan	Restricted Current	3,510	Federal Perkins Loan funds to FSEOG.
Loan	Unrestricted Current	1,170	Return of institutional matching funds.
Unexpended Plant	Retirement of Indebtedness	2,000	Funding of debt service.
Retirement of Indebtedness	Unexpended Plant	3,130,091	Financing for capital improvements.

Also see Note 20 for transfers between component units.

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NOTE 8 - PENSION PLANS

University Employees

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the years ending June 30, 1999, 1998, and 1997 were \$14,527,000, \$13,940,000, and \$13,221,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$289,000 in the current fiscal year at the rate of .15 percent of compensation. In addition, the University paid the employer's 7.55 percent share (\$7,100) of pension costs for employees on educational leave with employees paying \$5,700.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. Generally all full-time employees whose principal duties are the preservation of public order or

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 8 - PENSION PLANS (CONTINUED)

University Employees (Continued)

the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 12.33 percent which, as for the SCRS, included the 2.03 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 1999, 1998, and 1997 were \$234,000, \$229,000, and \$219,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$4,540 and accidental death insurance contributions of \$4,540 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each retirement plan. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

UNIVERSITY OF SOUTH CAROLINA
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NOTE 8 - PENSION PLANS (CONTINUED)

University Employees (Continued)

The Systems do not make separate measurements of assets and pension obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.03 percent from the employer in fiscal year 1999.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$3,554,000 excluding the surcharge from the University as employer and \$2,824,000 from its employees as plan members. In addition, the University paid \$70,600 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Component Units

Effective October 1, 1992, the Trust established a defined contribution plan covering all faculty participants in the Practice Plan. The contribution rate is determined by the Trust and is 10 percent of eligible compensation up to statutory limits, effective January 1, 1993, the date of initial funding. After completion of three years of service, 100 percent of benefits vest. Contributions for the year ended December 31, 1998, of \$818,941 are included as a component of personal services and related expenses.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
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NOTE 8 - PENSION PLANS (CONTINUED)

Component Units (Continued)

The Faculty House has a defined contribution plan covering substantially all full-time employees. Under the terms of the plan, employees are permitted to contribute up to 10 percent of their annual salaries. The employer may contribute up to six percent of participants' salaries with approval from the board of directors. Employees are immediately vested 100 percent in voluntary contributions made by the employees. The Faculty House's policy is to fund benefit costs accrued. For the year ended August 31, 1998, provisions for pension benefits of \$1,316 were charged to operations.

NOTE 9 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 18,900 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the approximate amount of \$12,800,000 for the year ended June 30, 1999. As discussed in Note 8, the University paid approximately \$4,908,000 applicable to the 2.03% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

UNIVERSITY OF SOUTH CAROLINA
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NOTE 10 - DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 11 - INVENTORIES

Inventories are valued at cost except for bookstores and University Press inventories which are valued at the lower of cost or market. The following is a summary by inventory category of cost determination method and value at June 30, 1999:

<u>Category</u>	<u>Method</u>	
Bookstores	First-in, first-out	\$1,216,020
Maintenance	Last-in, first-out	271,290
Central Supply	First-in, first-out	74,445
University Press	First-in, first-out	495,680
Others	Various	<u>201,422</u>
		<u>\$2,258,857</u>

NOTE 12 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account for a multi-campus system which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund subgroup and by campus. At June 30, 1999, restricted current funds and retirement of indebtedness funds owed unrestricted current funds \$5,106,163 and \$350,000, respectively. The amount borrowed by retirement of indebtedness funds was used for the payment of principal and interest related to Athletic facilities revenue bond anticipation notes.

Component Units

As of December 31, 1998, the amount due to the Trust support fund from the Practice Plan operations fund was \$1,443,148. The amount due to the Departmental Operations Subfund from the Educational Trust Support Subfund was \$220,789.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 12 - INTERFUND LIABILITIES AND BORROWINGS (CONTINUED)

Component Units (Continued)

In the separately issued component unit financial statements and the condensed component unit statements presented in Note 20, such amounts are separately reported on the balance sheet in asset and liability accounts which identify the individual source and recipient funds of each component unit. On the University's balance sheet, these balances are eliminated.

Within the Trust's funds, the \$31,496 due to the support fund for the Dean's academic enhancement fund from the building and equipment fund consists of the funds advanced by the Dean's fund toward the acquisition of certain property. Pursuant to various agreements entered into in connection with the issuance of certain revenue bonds and notes, project revenues will be used to reimburse the Dean's fund after operating expenses are paid and debt service and contingencies are provided for.

NOTE 13 - STUDENT LOANS, ACCOUNTS, AND PATIENTS RECEIVABLE

The University has the following significant accounts receivable for which the detail is not displayed on the balance sheet.

Unrestricted Current Funds

Educational and General	
Student and Sponsor Receivables	\$3,212,405
University Press	484,523
Computer Services	71,861
Employee Travel Advances	25,900
Other	169,943
Auxiliary Enterprises	
Housing	537,557
Bookstores	354,396
Parking	450,032
Athletics	588,018
Faculty House	201,362
Other	<u>303,145</u>
	<u><u>\$6,399,142</u></u>

Agency Funds

Small Business Development Center	\$ 538,979
EPSCOR	73,516
SC Business Partnership Foundation	191,708
National Advocacy Center - Marriott Services	282,701
Other	<u>138,718</u>
	<u><u>\$1,225,622</u></u>

With minor exceptions, loan losses for student loan receivables and various accounts receivable are established based upon losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 1999, the allowances for student loans receivable in loan funds and accounts receivable in unrestricted current funds are valued at \$899,052 and \$498,611 respectively.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 13 - STUDENT LOANS, ACCOUNTS, AND PATIENTS RECEIVABLE (CONTINUED)

Component Units

The clinical entities, through their affiliation with a hospital, which serves as a regional medical and trauma center, provide medical services to indigent patients not covered under insurance or governmental programs. Charges to patients participating in Medicare and Medicaid programs and substantially all charges to patients having medical insurance are adjusted by third-party payers. A percentage of privately paying patients do not meet their obligations.

Management adjusts patient charges to their estimated net realizable value through a valuation allowance. Adjustments related to indigent care and third-party payers are recorded as reductions of patient service revenue. Adjustments related to bad debts of privately paying patients are recorded as bad debts expense.

For the year ended December 31, 1998, patient accounts receivable, net consist of:

Adjusted Patient Charges	\$3,496,509
Less, Estimated Uncollectible Charges and Waivers of Balances Due	<u>(622,942)</u>
Patient Accounts Receivable, Net	<u>\$2,873,567</u>

The allowance for uncollectible charges applied to reduce adjusted patient charges to net realizable value at December 31, 1998 is determined using an experience method and is computed on an entity-by-entity basis.

NOTE 14 - CONSTRUCTION COSTS AND COMMITMENTS

The University's accumulated costs at June 30, 1999, for projects that are under construction or in the planning stage that are to be capitalized upon completion total approximately \$25,048,000. Costs to complete these projects are estimated to be approximately \$76,598,000 and the projects are expected to be completed over the next several years.

The University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs and/or renovation to existing facilities. Costs incurred to date on these projects amounted to approximately \$7,690,000 at June 30, 1999, and the estimated costs to complete are approximately \$10,091,000.

At June 30, 1999, the University held commitments with various contractors relating to all projects of approximately \$32,641,000. The University anticipates the funding of these projects out of current and future bond issues, capital improvement bond proceeds, private gifts, and federal funds for use on specific projects.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
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NOTE 15 - DEPOSITS AND INVESTMENTS

Most deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain of the University's deposits and investments are deposited with or managed by financial institutions and brokers. Cash and investments of the University's component units are not under the State Treasurer's control.

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$112,047,111	Cash on Hand	\$ 91,353
Investments	9,678,758	Deposits Held by State	
		Treasurer	106,515,993
		Other Deposits	165,591
		Component Unit Deposits	
		Discrete	5,002,086
		Blended	272,088
		Investments Held by State	
		Treasurer	2,130,157
		Other Investments	2,582,471
		Component Unit	
		Investments- Discrete	<u>4,966,130</u>
	<u>\$121,725,869</u>		<u>\$121,725,869</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1999, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

As disclosed in Note 4, retirement of indebtedness plant funds include \$97,290 restricted cash held by the State Treasurer for debt service reserve funds as required by the bond indentures.

Other Deposits

The University's other deposits at year-end were entirely covered by federal depository insurance for deposits with banks. Of the total of these deposits the University's loan funds include \$25,000 restricted cash for a loan participation deposit.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Held by State Treasurer and Other Investments

The University's investment of endowment and similar funds includes common stock held by the State Treasurer for the University which is legally restricted. The investments are carried at fair value.

The University has other endowment investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Purchases and sales are accounted for on the transaction date. Realized and unrealized gains and losses on investments have been recorded. Gains and losses on securities transactions are reported separately in the endowment and similar funds. Earnings are recorded on an accrual basis.

The University's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the University's name. Investments which do not meet the definition of investment securities are listed below but are not classified by risk category. A summary of investments at June 30, 1999, by category of credit risk follows:

	<u>Category</u>		<u>Fair</u>
	<u>1</u>	<u>3</u>	<u>Value</u>
Common Stock Held by State Treasurer	\$2,128,857	\$ -	\$2,128,857
Common Stocks	-	474,349	474,349
U. S. Government Securities	-	168,608	168,608
Corporate Bonds	-	76,196	76,196
Pooled Investments*	-	1,856,626	1,856,626
Total Categorized Investments	<u>\$2,128,857</u>	<u>\$2,575,779</u>	4,704,636
Miscellaneous			
Mortgage			6,692
Other			<u>1,300</u>
Total Investments			<u>\$4,712,628</u>

*Consist of marketable securities and government debt instruments.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Component Units' Deposits

The Trust and the Practice Plan cash and cash equivalents include cash on deposit with banks of \$2,651,066 and deposits in money market funds of \$2,351,020. Of these amounts, approximately \$2,280,000 exceeded the limits of federal depository insurance (FDIC). Of the amount exceeding federal depository insurance limits, \$2,192,000 was on deposit with a bank which has agreed to support balances to their full extent. The bank's management reviews the total of the Trust's balances on a daily basis and pledges marketable debt securities held in the bank's own portfolio in amounts approximately the uninsured excess. All other balances exceeding federal depository insurance limits are not subject to such an agreement. Management does not believe that significant credit risk is associated with its banking relationships.

The difference in cash on deposit with banks and cash presented in the financial statements is comprised of in-transit reconciliation items and money market funds which are included in the financial statements as cash equivalents, but are not on deposit with banks.

The Faculty House cash and cash equivalents include cash on deposit with banks of \$272,088 and a Certificates of Deposit of \$250,000. Of the amounts reported as cash and cash equivalents, approximately \$150,000 exceeded the FDIC limits.

Cash and cash equivalents are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name. (Not held by the bank.)
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.)

Information pertaining to the categorization by deposit type is not readily available.

Component Units' Investments

Investments of the component units consist primarily of U. S. Treasury notes and bonds and common stock. Investments in marketable debt and equity securities are carried at fair value. Investments of the component units consist of the following:

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 15 - DEPOSITS AND INVESTMENTS (CONTINUED)

Component Units' Investments (Continued)

	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury Obligations due		
Within one year	\$ 64,600	\$ 64,600
After one year, within five	198,466	203,311
After five years, within ten	360,890	388,176
Marketable Equity Securities:		
Common Stock and Mutual Funds	2,753,412	3,684,267
Certificates of Deposit maturing after three months	<u>625,776</u>	<u>625,776</u>
Total	<u>\$4,003,144</u>	<u>\$4,966,130</u>

Securities are held by an agent of the Trust in the Trust's name.

NOTE 16 - PLEDGES OF GIFTS

The University recognizes revenue from Gamecock Club pledges when collected. Such contributions totaling approximately \$8,018,000 in cash were collected in 1999 and recorded in the unrestricted current fund as private gifts revenue. Outstanding pledges at June 30, 1999, amounted to approximately \$1,586,000. Pledges are associated with the Gamecock Club membership drive at the University and are due in the next fiscal year. The pledges receivable are not included in the financial statements, nor has the amount of uncollectible pledges been estimated, because it is not practicable to estimate the net realizable value of these pledges.

NOTE 17 - RELATED PARTIES

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the University of South Carolina Development Foundation; the Lancaster County Educational Foundation, Inc.; the South Carolina Research Institute; and the South Carolina Universities Research and Education Foundation. The financial statements of these entities are audited, except for those indicated as unaudited, by independent auditors retained by them. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

In conjunction with its implementation of GASB Statement No.14, each fiscal year, management reviewed its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 17 - RELATED PARTIES (CONTINUED)

financially accountable for them. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these parties may become component units of the University and/or part of the financial reporting entity.

The University of South Carolina Educational Foundation is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, awards and stipends to faculty and administrative staff, and reimbursement for computer and personnel services provided by the University. Also during the year, the University transferred to the Foundation funds from private sources for matching gifts.

The University of South Carolina Business Partnership Foundation is a nonprofit corporation which, among other purposes, was formed to bring together representatives of business and government to assist them in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. During the year, the University received funds for scholarships, reimbursement of personal service and fringe benefit and other administrative costs from the Foundation.

The Lancaster County Educational Foundation, Inc., is an eleemosynary corporation operating for the benefit and support of the University of South Carolina at Lancaster. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the University.

The Greater University of South Carolina Alumni Association was formed to serve the students after they graduate. The Alumni Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the University, helping graduates keep in touch with one another, and providing programs of continuing education. During the year, the University received funds for scholarships from the Association.

The Carolina Piedmont Foundation, Inc., was incorporated under the laws of South Carolina to establish and promote a permanent foundation to accept gifts for charitable, benevolent, cultural, and education purposes for the exclusive use and benefit of the University of South Carolina at Spartanburg. During the year, the University received funds for scholarships and reimbursement for personnel services provided by the University from the Foundation.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 17 - RELATED PARTIES (CONTINUED)

The University of South Carolina Development Foundation is a South Carolina eleemosynary corporation which operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the University. During the year, the University received funds for rent and reimbursement for computer and personnel services provided by the University from the Foundation. Also during the year, the University paid to the Foundation funds for the lease of aircraft and real property and for research programs.

The South Carolina Universities Research and Education Foundation (SCUREF) was incorporated in November 1988 under the laws of the State of South Carolina. Its purpose is to operate as a support organization primarily to provide such assistance as may be requested by Clemson University, the Medical University of South Carolina, South Carolina State University, and/or the University of South Carolina (collectively referred to as the "member universities") in their separate and joint efforts to perform research. During fiscal year 1999, the University received funds from SCUREF for research.

The South Carolina Research Institute (SCRI) is a newly formed not-for profit research foundation which exists exclusively to facilitate the University of South Carolina's teaching, research and public service mission. It will support research programs of clear relevance to the state and nation. The research areas will focus on the environment, new technologies, economic development, health sciences and social issues. SCRI receives research funding from private sources and also competes for federal funds. During fiscal year 1999, the University received funds from SCRI for research.

Various transactions occur between the University and these related parties. A summary of these transactions for the year ended June 30, 1999, follows:

Funds Received from Related Parties

Carolina Piedmont Foundation	\$ 417,925
University of South Carolina Development Foundation	819,895
University of South Carolina Business Partnership Foundation	229,275
University of South Carolina Educational Foundation	6,410,094
Greater University of South Carolina Alumni Association	594,441
Lancaster County Educational Foundation	4,292,746
South Carolina Universities Research and Education Foundation ("SCUREF")	3,595,621
South Carolina Research Institute ("SCRI")	<u>5,050,782</u>
	<u>\$21,410,779</u>

The majority of SCRI revenues and the majority of SCUREF revenues are recorded by the University as federal grants and contracts revenues and the majority of revenues from other related parties are recorded as private gifts revenue in restricted current funds. Restricted current funds grants and contracts receivables include \$490,298 due from SCUREF and \$1,774,258 due from SCRI at June 30, 1999.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 17 - RELATED PARTIES (CONTINUED)

Funds Paid to Related Parties

University of South Carolina Development Foundation	\$656,295
University of South Carolina Educational Foundation	47,506
University of South Carolina Business Partnership Foundation	2,909
Carolina Piedmont Foundation	45,716
Lancaster County Educational Foundation	6,277
Greater University of South Carolina Alumni Association	<u>140</u>
	<u>\$758,843</u>

The latest available audited financial statements of these related parties are summarized on the following pages except for Lancaster County Educational Foundation, Inc., whose unaudited statements are summarized.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 17 - RELATED PARTIES (CONTINUED)

	June 30, 1998 UNIVERSITY OF SOUTH CAROLINA DEVELOPMENT FOUNDATION	June 30, 1998 SOUTH CAROLINA UNIVERSITIES RESEARCH AND EDUCATION FOUNDATION	December 31, 1998 LANCASTER COUNTY EDUCATION FOUNDATION, INC. (UNAUDITED)	June 30, 1998 CAROLINA PIEDMONT FOUNDATION, INC.	June 30, 1998 UNIVERSITY OF SOUTH CAROLINA BUSINESS PARTNERSHIP FOUNDATION	June 30, 1998 UNIVERSITY OF SOUTH CAROLINA EDUCATIONAL FOUNDATION	June 30, 1998 GREATER UNIVERSITY OF SOUTH CAROLINA ALUMNI ASSOCIATION	June 30, 1998 SOUTH CAROLINA RESEARCH INSTITUTE
Total Assets	<u>\$ 33,085,438</u>	<u>\$ 3,007,309</u>	<u>\$ 6,122,429</u>	<u>\$ 5,781,352</u>	<u>\$ 14,625,581</u>	<u>\$ 149,372,147</u>	<u>\$ 4,371,265</u>	<u>\$ 1,335,784</u>
Net Assets And Fund Balances								
Net Assets								
Unrestricted, Designated	\$ 13,435,923	\$ -	\$ -	\$ -	\$ 573,366	\$ 300,000	\$ -	\$ -
Unrestricted	13,713,302	156,404	244,632	1,208,374	2,348,683	41,962,800	1,834,733	308,550
Temporarily Restricted	2,043,087	1,352,357	-	1,619,076	5,052,849	45,289,150	1,903,619	-
Permanently Restricted	3,231,709	-	5,855,835	1,679,777	6,237,121	61,015,963	-	-
Fund Balances								
Unrestricted	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-
Total Net Assets	<u>\$ 32,424,021</u>	<u>\$ 1,508,761</u>	<u>\$ 6,100,467</u>	<u>\$ 4,507,227</u>	<u>\$ 14,212,019</u>	<u>\$ 148,567,913</u>	<u>\$ 3,738,352</u>	<u>\$ 308,500</u>
Unrestricted Net Assets								
Total Revenue And Support	\$ 5,206,948	\$ 10,062,284	\$ 188,719	\$ 1,254,498	\$ 4,379,017	\$ 20,170,637	\$ 1,297,944	\$ 333,057
Total Expenses	1,576,714	10,049,110	19,151	1,002,100	3,918,230	7,142,465	837,138	38,379
Increase In Unrestricted Net Assets	<u>3,630,234</u>	<u>13,174</u>	<u>169,568</u>	<u>252,398</u>	<u>460,787</u>	<u>13,028,172</u>	<u>460,806</u>	<u>294,678</u>
Temporarily Restricted Net Assets								
Total Revenue And Support	683,863	320,477	-	163,368	1,280,674	37,430,331	120,476	-
Total Expenses And Transfers	86,483	-	-	-	-	-	-	-
Increase In Temporarily Restricted Net Assets	<u>597,380</u>	<u>320,477</u>	<u>-</u>	<u>163,368</u>	<u>1,280,674</u>	<u>37,430,331</u>	<u>120,476</u>	<u>-</u>
Permanently Restricted Net Assets								
Total Revenue And Support	5,302	-	1,643,340	194,650	1,136,150	6,821,419	-	-
Total Expenses And Transfers	-	-	117,337	-	-	-	-	-
Increase In Permanently Restricted Net Assets	<u>5,302</u>	<u>-</u>	<u>1,526,003</u>	<u>194,650</u>	<u>1,136,150</u>	<u>6,821,419</u>	<u>-</u>	<u>-</u>
Increase In Net Assets Before Cumulative Effect Of Accounting Change	4,232,916	333,651	1,695,571	610,416	2,877,611	57,279,922	581,282	294,678
Transfer Of Restricted Funds To The University	-	-	-	-	-	-	-	-
Cumulative Effect Of Accounting Change For Contributions Received	-	-	-	-	-	-	-	-
Increase In Net Assets And Fund Balances	<u>\$ 4,232,916</u>	<u>\$ 333,651</u>	<u>\$ 1,695,571</u>	<u>\$ 610,416</u>	<u>\$ 2,877,611</u>	<u>\$ 57,279,922</u>	<u>\$ 581,282</u>	<u>\$ 294,678</u>
Net Cash Provided By (Used In)								
Operating Activities	\$ 8,368	\$ 464,548	\$ -	\$ (75,538)	\$ (1,344,144)	\$ (1,933,845)	\$ 216,280	\$ 124,476
Net Cash Provided By (Used In)								
Investing Activities	451,211	(1,975)	-	19,721	(1,793,021)	(6,323,979)	(223,619)	-
Net Cash Provided By (Used) In								
Financing Activities	35,000	-	-	169,639	2,733,650	7,912,970	-	-
Net Increase (Decrease) In Cash And Cash Equivalents	494,579	462,573	-	113,822	(403,515)	(344,854)	(7,339)	124,476
Cash And Cash Equivalents, July 1	326,353	1,126,376	-	227,451	1,206,469	510,243	799,442	22,205
Cash And Cash Equivalents, June 30	<u>\$ 820,932</u>	<u>\$ 1,588,949</u>	<u>\$ -</u>	<u>\$ 341,273</u>	<u>\$ 802,954</u>	<u>\$ 165,389</u>	<u>\$ 792,103</u>	<u>\$ 146,681</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 18 - TRANSACTIONS WITH STATE ENTITIES

The University has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, investment, and bond trustee services from the State Treasurer; legal services from the Attorney General; grants services from the Governor's Office; and records storage from the Department of Archives and History.

Other services received at no cost from the various offices of the State Budget and Control Board include retirement plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans contributions, surplus property disposal fees, insurance coverage, office supplies, printing, and telephone and interagency mail services. Significant payments were also made to other agencies for unemployment and workers' compensation coverage for employees. Payments were also made to South Carolina Educational Television for use of parking facilities during stadium events. The amounts of 1999 expenditures applicable to these transactions are not readily available.

The University provided no services free of charge to other State agencies during the fiscal year; however, the University provided data processing services to various State agencies for fees which totaled \$352,147. The University received approximately \$3,403 from Coastal Carolina University for providing certain administrative tasks. These amounts are reported as revenue from sales and services of educational and other activities. As subrecipient, the University received federal grant funds from various State agencies.

NOTE 19 - CONTINGENCIES AND LITIGATION

The University is involved in a number of legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters including personal injury, invasion of privacy, medical malpractice, and negligence. In some of these cases, the remedies sought or damages claimed are substantial. In the opinion of counsel, the outcome of the legal proceedings and claims is not expected to have a material adverse effect on the financial position of the University. Because the risk of material loss in excess of insurance coverage is unlikely, a loss liability has not been recorded.

The various federal programs administered by the University for fiscal year 1999 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 20 - DISCRETELY PRESENTED COMPONENT UNITS

As of June 30, 1999, the discretely presented component units, the Trust and the Practice Plan, owe the University \$1,308,634 for the reimbursement of salary and fringe benefit costs. The University reports the receivable in restricted current funds as "Grants and Contracts Receivable - Other". There is no related liability reported in the "component units" column because the University and component units have different fiscal year-ends. At December 31, 1998, the Trust and Practice Plan owed the University \$533,000 for salary reimbursements which is reported in the component unit financial statements as accounts payable. The University received rental income of \$64,460 which is included in unrestricted current funds and contributions of \$1,022,233 which is reported in private gifts and contracts in restricted current funds for the year ended June 30, 1999.

Contributions expense of the component units for 1998 includes the following for the Trust:

To the University of South Carolina School of Medicine in support of faculty and staff appointments and related operational costs.	\$1,006,810
To the University of South Carolina in support of its various programs.	254,448
To the University of South Carolina Development Foundation in support of the University of South Carolina.	20,000
To the University of South Carolina Educational Foundation in support of School of Medicine programs, development, and activities.	50,000

The following presents condensed financial statements as of and for the year ended December 31, 1998, for each of the discretely presented component units blended in the primary entity.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 20 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Balance Sheet, December 31, 1998

	<u>Trust</u>				<u>Practice Plan</u>			<u>Interfund</u>	<u>Totals</u>
	<u>Operations</u>	<u>Support</u>	<u>Building and Equipment</u>	<u>Total</u>	<u>Operations</u>	<u>Building and Equipment</u>	<u>Total</u>	<u>Transactions</u>	<u>(Memorandum Only)*</u>
ASSETS									
Current Assets:									
Cash and Cash Equivalents	\$ -	\$ 2,333,311	\$ 1,224,605	\$ 3,557,916	\$ 1,444,170	\$ -	\$ 1,444,170	\$ -	\$ 5,002,086
Investments	-	4,340,354	625,776	4,966,130	-	-	-	-	4,966,130
Patient Accounts Receivable - Net	-	-	-	-	2,873,567	-	2,873,567	-	2,873,567
Accrued Interest Receivable	16,055	-	-	16,055	-	-	-	-	16,055
Other Receivables	-	-	18,378	18,378	1,038,715	-	1,038,715	(5,106)	1,051,987
Prepaid Items	-	57,025	-	57,025	30,311	-	30,311	-	87,336
Due from Practice Plan	-	1,443,148	-	1,443,148	-	-	-	(1,443,148)	-
Due from (to) Educational Trust Support Subfund	220,789	(220,789)	-	-	-	-	-	-	-
Due from Trust Building and Equipment Fund	-	31,496	-	31,496	-	-	-	(31,496)	-
Total Current Assets	236,844	7,984,545	1,868,759	10,090,148	5,386,763	-	5,386,763	(1,479,750)	13,997,161
Property:									
Buildings	-	-	7,149,600	7,149,600	-	-	-	-	7,149,600
Building improvements	-	-	1,106,168	1,106,168	-	1,311,107	1,311,107	-	2,417,275
Furniture and Office Equipment	-	-	781,991	781,991	-	1,933,973	1,933,973	-	2,715,964
Medical Equipment	-	-	-	-	-	1,625,581	1,625,581	-	1,625,581
Accumulated Depreciation	-	-	(1,752,642)	(1,752,642)	-	(2,632,158)	(2,632,158)	-	(4,384,800)
Net Property	-	-	7,285,117	7,285,117	-	2,238,503	2,238,503	-	9,523,620
Other Assets:									
Unamortized Loan Costs	-	-	18,235	18,235	-	-	-	-	18,235
Total Assets	\$ 236,844	\$ 7,984,545	\$ 9,172,111	\$ 17,393,500	\$ 5,386,763	\$ 2,238,503	\$ 7,625,266	\$ (1,479,750)	\$ 23,539,016

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 20 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Balance Sheet, December 31, 1998, (Continued)

	Trust				Practice Plan			Interfund	Totals
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total	Transactions	(Memorandum Only)*
LIABILITIES AND FUND BALANCES									
Current Liabilities:									
Accounts Payable	\$ 13,972	\$ 164,658	\$ 11,608	\$ 190,238	\$ 928,170	\$ -	\$ 928,170	\$ -	\$ 1,118,408
Accrued Interest Payable	-	-	5,277	5,277	-	-	-	-	5,277
Accrued Compensated Absences	24,608	66,320	-	90,928	341,001	-	341,001	-	431,929
Accrued Retirement Payable	-	114,818	-	114,818	-	-	-	-	114,818
Capital Leases Payable, Current	-	-	25,617	25,617	30,311	100,544	130,855	-	156,472
Notes Payable, Current	-	-	4,990,763	4,990,763	-	-	-	-	4,990,763
Revenue Bonds, Current	-	-	45,000	45,000	-	-	-	-	45,000
Due to Practice Plan	-	5,106	-	5,106	-	-	-	(5,106)	-
Due to Trust Support Fund	-	-	31,496	31,496	1,443,148	-	1,443,148	(1,474,644)	-
Total Current Liabilities	38,580	350,902	5,109,761	5,499,243	2,742,630	100,544	2,843,174	(1,479,750)	6,862,667
Long-term Liabilities:									
Capital Leases	-	-	28,801	28,801	-	331,583	331,583	-	360,384
Revenue Bonds	-	-	835,000	835,000	-	-	-	-	835,000
Total Long-term Liabilities	-	-	863,801	863,801	-	331,583	331,583	-	1,195,384
Total Liabilities	38,580	350,902	5,973,562	6,363,044	2,742,630	432,127	3,174,757	(1,479,750)	8,058,051
Fund Balances:									
Dean's Academic Enhancement Subfund, Designated	-	1,898,778	-	1,898,778	-	-	-	-	1,898,778
Department Subfund, Designated	-	4,782,154	-	4,782,154	-	-	-	-	4,782,154
Department Operations Subfund	-	(10,275)	-	(10,275)	-	-	-	-	(10,275)
Designated for clinical operations	-	-	-	-	2,644,133	-	2,644,133	-	2,644,133
Designated for Trust operations	198,264	-	-	198,264	-	-	-	-	198,264
Investment in Fixed Assets	-	-	3,198,549	3,198,549	-	1,806,376	1,806,376	-	5,004,925
Accumulated other comprehensive income	-	962,986	-	962,986	-	-	-	-	962,986
Total Fund Balances	198,264	7,633,643	3,198,549	11,030,456	2,644,133	1,806,376	4,450,509	-	15,480,965
Total Liabilities and Fund Balances	\$ 236,844	\$ 7,984,545	\$ 9,172,111	\$ 17,393,500	\$ 5,386,763	\$ 2,238,503	\$ 7,625,266	\$ (1,479,750)	\$ 23,539,016

*Interfund amounts have not been eliminated.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 20 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Statement of Activities for the Year Ended December 31, 1998

	Trust				Practice Plan			Interfund Transactions	Totals (Memorandum Only) *
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total		
REVENUES									
Patient Charges, Net of Contractual									
Adjustments and Refunds	\$ -	\$ -	\$ -	\$ -	\$ 17,314,118	\$ -	\$ 17,314,118	\$ -	\$ 17,314,118
Other Professional Income	-	-	-	-	6,881,768	-	6,881,768	-	6,881,768
Contributions to Dean's Academic									
Enhancement Subfund	-	1,929,213	-	1,929,213	(1,929,213)	-	(1,929,213)	-	-
Contributions from Dean's Academic									
Enhancement Subfund	-	(950,810)	-	(950,810)	950,810	-	950,810	-	-
Contributions to Educational Trust									
from Other Sources	-	916,177	-	916,177	-	-	-	-	916,177
Investment Income	361,460	-	74,973	436,433	88,255	-	88,255	-	524,688
Rental Income	-	10,591	1,717,890	1,728,481	-	-	-	(1,347,472)	381,009
Other Income	-	-	30	30	960,305	-	960,305	-	960,335
Total Revenues	361,460	1,905,171	1,792,893	4,059,524	24,266,043	-	24,266,043	(1,347,472)	26,978,095
EXPENSES									
Non-faculty Compensation	88,368	259,627	-	347,995	5,035,628	-	5,035,628	-	5,383,623
Rent	-	-	64,460	64,460	1,509,738	-	1,509,738	(1,347,472)	226,726
Departmental Support	-	538,735	-	538,735	-	-	-	-	538,735
Utilities and Telephone	-	661	270,327	270,988	222,418	-	222,418	-	493,406
Supplies	3,106	63,077	-	66,183	1,317,435	-	1,317,435	-	1,383,618
Dues, Licenses, Journals	2,320	25,084	-	27,404	262,821	-	262,821	-	290,225
Travel, Meetings, Special Events	4,514	78,397	-	82,911	362,038	-	362,038	-	444,949
Insurance	-	989	16,471	17,460	286,908	-	286,908	-	304,368
Contractual Services	78,181	240,554	-	318,735	1,020,999	-	1,020,999	-	1,339,734
Minor Equipment, Renovations, Repair									
and Maintenance	2,498	496,694	-	499,192	365,397	-	365,397	-	864,589
Recruitment	-	35,487	-	35,487	23,708	-	23,708	-	59,195
Resident and Student Expense	-	68,688	-	68,688	93,500	-	93,500	-	162,188
Contributions	124,344	1,428,836	-	1,553,180	-	-	-	-	1,553,180
Building Maintenance and Security	-	-	255,096	255,096	-	-	-	-	255,096
Management Fees	-	-	103,630	103,630	-	-	-	-	103,630

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 20 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Statement of Activities for the Year Ended December 31, 1998, (Continued)

	Trust				Practice Plan				Totals
			Building and Equipment	Total		Building and Equipment	Total	Interfund Transactions	(Memorandum Only) *
	Operations	Support			Operations				
EXPENSES (Continued)									
Interest	-	-	452,978	452,978	-	35,087	35,087	-	488,065
Depreciation and Amortization	-	-	321,046	321,046	-	487,532	487,532	-	808,578
Marketing	-	128,198	-	128,198	-	-	-	-	128,198
Bad Debts	-	-	-	-	751,932	-	751,932	-	751,932
Other	-	53,701	1,911	55,612	418,043	17,660	435,703	-	491,315
Faculty Compensation and Professional Expenses	-	-	-	-	11,019,862	-	11,019,862	-	11,019,862
Total Expenses	303,331	3,418,728	1,485,919	5,207,978	22,690,427	540,279	23,230,706	(1,347,472)	27,091,212
Excess (Deficiency) of Revenues Over Expenses	58,129	(1,513,557)	306,974	(1,148,454)	1,575,616	(540,279)	1,035,337		(113,117)
INTERFUND TRANSFERS									
Support from Practice Plan to Trust	-	2,343,328	-	2,343,328	(2,343,328)	-	(2,343,328)	-	-
Transfer (to) from Other Funds	(100,000)	(102,984)	27,780	(175,204)	(227,266)	402,470	175,204	-	-
Total	(100,000)	2,240,344	27,780	2,168,124	(2,570,594)	402,470	(2,168,124)	-	-
Excess (Deficiency) of Revenues and Transfers In over Expenses and Transfers Out	(41,871)	726,787	334,754	1,019,670	(994,978)	(137,809)	(1,132,787)	-	(113,117)
Other comprehensive income	-	306,449	-	306,449	-	-	-	-	306,449
Fund Balances, Beginning of Year	240,135	6,600,407	2,863,795	9,704,337	3,639,111	1,944,185	5,583,296	-	15,287,633
Fund Balances, End of Year	\$ 198,264	\$ 7,633,643	\$ 3,198,549	\$ 11,030,456	\$ 2,644,133	\$ 1,806,376	\$ 4,450,509	\$ -	\$ 15,480,965

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 20 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Statement of Cash Flows for the Year Ended December 31, 1998

	Trust				Practice Plan				Totals
			Building and Equipment	Total		Building and Equipment	Total	Interfund Transactions	(Memorandum Only)
	Operations	Support			Operations				
<u>Cash Flows from Operating Activities</u>									
Excess (Deficiency) of Revenues and									
Transfers Over Expenses	\$ (41,871)	\$ 726,787	\$ 334,754	\$ 1,019,670	\$ (994,978)	\$ (137,809)	\$ (1,132,787)	\$ -	\$ (113,117)
Adjustments to Reconcile Excess									
(Deficiency) of Revenues over									
Expenses to Net Cash Provided									
(used) by Operating Activities:									
Gain on Sale of Investments	-	(151,129)	-	(151,129)	-	-	-	-	(151,129)
Undistributed Earnings on Investment:	-	(33,121)	(34,535)	(67,656)	-	-	-	-	(67,656)
Loss on Disposal of Equipment	-	-	-	-	-	17,660	17,660	-	17,660
Depreciation and Amortization	-	-	321,044	321,044	-	487,532	487,532	-	808,576
Provision for Uncollectible Accounts	-	-	-	-	155,735	-	155,735	-	155,735
(Increase) Decrease In:									
Patient Accounts Receivable	-	-	-	-	812,109	-	812,109	-	812,109
Other Receivables	(4,229)	14,089	(7,304)	2,556	(100,555)	-	(100,555)	(14,089)	(112,088)
Prepaid Items	5,016	44,582	-	49,598	68,574	-	68,574	-	118,172
Interfund Receivables	(220,789)	967,602	-	746,813	-	-	-	(746,813)	-
Increase (Decrease) In:									
Accounts and Accrued Interest Payable	13,158	99,535	5,251	117,944	211,662	-	211,662	-	329,606
Accrued Compensated Absences	6,845	21,644	-	28,489	(59,098)	-	(59,098)	-	(30,609)
Accrued Retirement Contribution									
Payable	-	11,064	-	11,064	-	-	-	-	11,064
Interfund Payables	-	(14,089)	-	(14,089)	(746,813)	-	(746,813)	760,902	-
Net Cash Provided by (Used for)									
Operating Activities	(241,870)	1,686,964	619,210	2,064,304	(653,364)	367,383	(285,981)	-	1,778,323
<u>Cash Flows from Investing Activities</u>									
Proceeds from Sale of Investments	-	773,940	-	773,940	-	-	-	-	773,940
Cash Paid for Investments	-	(913,697)	-	(913,697)	-	-	-	-	(913,697)
Cash Paid for Property and Equipment	-	-	(11,522)	(11,522)	-	(202,294)	(202,294)	-	(213,816)
Net Cash Provided by (Used for)									
Investing Activities	-	(139,757)	(11,522)	(151,279)	-	(202,294)	(202,294)	-	(353,573)

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 20 - DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Statement of Cash Flows for the Year Ended December 31, 1998, (Continued)

	Trust				Practice Plan			Interfund Transactions	Totals (Memorandum Only)
	Operations	Support	Building and Equipment	Total	Operations	Building and Equipment	Total		
<u>Cash Flows from Capital and Related Financing Activities</u>									
Principal Repayments, Capitalized Lease Obligations	-	-	(24,382)	(24,382)	-	(165,089)	(165,089)	-	(189,471)
Principal Repayments, Notes Payable	-	-	(120,186)	(120,186)	-	-	-	-	(120,186)
Principal Repayments, Revenue Bonds	-	-	(40,000)	(40,000)	-	-	-	-	(40,000)
Net Cash Provided by (Used for) Capital and Related Financing Activities	-	-	(184,568)	(184,568)	-	(165,089)	(165,089)	-	(349,657)
Net Increase (Decrease) in Cash and Cash Equivalents	(241,870)	1,547,207	423,120	1,728,457	(653,364)	-	(653,364)	-	1,075,093
Cash and Cash Equivalents, Beginning of Year	241,870	786,104	801,485	1,829,459	2,097,534	-	2,097,534	-	3,926,993
Cash and Cash Equivalents, End of Year	<u>\$ -</u>	<u>\$ 2,333,311</u>	<u>\$ 1,224,605</u>	<u>\$ 3,557,916</u>	<u>\$ 1,444,170</u>	<u>\$ -</u>	<u>\$ 1,444,170</u>	<u>\$ -</u>	<u>\$ 5,002,086</u>

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 21 - RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for all of those risks except business interruption insurance coverage. The University sees the only reasonable application of business interruption insurance to be in university housing. Management believes such coverages are sufficient to preclude any significant uninsured losses for the covered risks except for directors and officers personal liability for fiduciary matters. Claims have been settled within the limits of the coverages in each of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risk internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, aircraft, and watercraft (inland marine);
4. Torts;
5. Natural disasters; and
6. Medical malpractice claims against covered hospitals, employees, third- and fourth-year medical students, and student health practitioners at student health services.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 21 - RISK MANAGEMENT (CONTINUED)

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The ISF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The University also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprise, the Medical Malpractice Patients' Compensation Fund.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft, misappropriation and for destruction up to \$500,000.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted current fund. The University reports liabilities for underinsured risks of loss when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely (except for directors and officers as described above) and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

NOTE 22 - NOTES RECEIVABLE

The University entered into an agreement with the University of South Carolina Educational Foundation, a related party, as authorized by South Carolina Code of Laws, Section 59-101-410. In accordance with this section, the University may lend certain of its endowment funds and auxiliary funds to the University of South Carolina Educational Foundation. Under terms of the agreement, the University will earn interest at a monthly rate as determined by the South Carolina State Treasurer. Notes receivable and accrued interest receivable at June 30, 1999, is \$16,562,716 and \$863,263, respectively.

UNIVERSITY OF SOUTH CAROLINA
Notes to Financial Statements
June 30, 1999

NOTE 23 - DETAILS OF FUND BALANCES

Details of fund balances as of June 30, 1999, are as follows:

	<u>Current Funds</u>		<u>Loan Funds</u>	<u>Endowment and Similar Funds</u>	<u>Plant Funds</u>			
	<u>Unrestricted</u>	<u>Restricted</u>			<u>Unexpended</u>	<u>Retirement of Indebtedness</u>	<u>Investment in Plant</u>	<u>Component Units</u>
Unrestricted:								
Unexpended, Designated	\$ -	\$ -	\$ -	\$ -	\$18,984,501	\$ -	\$ -	\$ -
Endowment	-	-	-	82,221	-	-	-	-
Quasi-Endowment	-	-	-	13,269,602	-	-	-	-
Unrestricted, Unallocated	46,701,466	-	-	-	-	-	-	-
Deans Academic Enhancement, Designated	-	-	-	-	-	-	-	1,898,778
Departmental, Designated	-	-	-	-	-	-	-	4,771,879
Clinical Operations, Designated	-	-	-	-	-	-	-	2,644,133
Trust Operations, Designated	-	-	-	-	-	-	-	198,264
Net Investment in Plant	-	-	-	-	-	-	738,414,841	-
Restricted:								
Contracts and Grants	-	6,834,022	-	-	-	-	-	-
Scholarships	-	977,484	-	-	-	-	-	-
U.S. Government Grants								
Refundable	-	-	16,635,846	-	-	-	-	-
University Loan Funds	-	-	2,024,050	-	-	-	-	-
Endowment and Similar Funds:								
Endowment	-	-	-	10,561,590	-	-	-	-
Quasi-Endowment	-	-	-	5,336	-	-	-	-
Term Endowment	-	-	-	59,767	-	-	-	-
Unexpended	-	-	-	-	32,362,542	-	-	-
Retirement of Indebtedness	-	-	-	-	-	847,557	-	-
Investment in Fixed Assets	-	-	-	-	-	-	-	5,004,925
Unrealized Investment Gains(Loses), Net	-	-	-	-	-	-	-	962,986
Totals	<u>\$46,701,466</u>	<u>\$7,811,506</u>	<u>\$18,659,896</u>	<u>\$23,978,516</u>	<u>\$51,347,043</u>	<u>\$847,557</u>	<u>\$738,414,841</u>	<u>\$15,480,965</u>

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

June 30, 1999

YEAR 2000 (UNAUDITED)

I. Primary Entity

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the Year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for the example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features - such as environmental systems, elevators, and vehicles - as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the University's direct control but also the systems of other entities with which the University transacts business. Some of the University's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the University.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the University is or will be Y2K ready, the University's remediation efforts will be successful in whole or in part, or that parties with whom the University does business will be year 2000 ready.

The University has used current staff to conduct various assessments of Y2K issues. A project plan for remediation of University systems, including timelines, has been developed, costs determined and resources allocated. The University's Y2K plan includes multiple review steps to achieve compliance in all critical areas. Testing of all remediated systems is part of the remediation project plan. The University has projected that Y2K compliance will cost an estimated \$1,080,000 and will be funded from current state funds.

Work to address the year 2000 issue with respect to each system critical to conducting operations falls predominantly within one of the following stages of work:

1. Awareness stage - Establishing a budget and project plan for dealing with the year 2000 issue.
2. Assessment stage - Identifying the systems and components for which year 2000 work is needed.
3. Remediation stage - Making changes to systems/equipment.
4. Validation/testing stage - Validating and testing changes that were made during the remediation stage.

UNIVERSITY OF SOUTH CAROLINA
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

June 30, 1999

YEAR 2000 (UNAUDITED) (CONTINUED)

At June 30, 1999, the University had completed the awareness, assessment, and remediation stages and was performing, or had completed, validation/testing work for mission-critical systems and equipment relating to the following: accounting, payroll, budgeting, receivables, debt management, facilities, human resource management, student information, telephones, purchasing, University Advancement.

The University is making contingency plans for the possible failure of computer systems and embedded devices and also for possible interruptions to the University's business.

II. Discretely Presented Component Units

The University of South Carolina Educational Trust and Clinical Faculty Practice Plans' mission-critical systems, equipment and facilities are included in the Y2K plans of the primary entity.

The University of South Carolina School of Medicine is in the process of completing a comprehensive project to test the School of Medicine's readiness for potential power outages, communications disruptions and other interferences with providing educational, research and medical services. This project includes the hardware and software having budgeting and financial reporting applications used by the University of South Carolina Educational Trust and Clinical Faculty Practice Plans.

In a letter dated June 10, 1999, the Associate Dean of the School of Medicine has provided certification regarding Year 2000 readiness to the Executive Vice President for Academic Affairs and Provost of the University of South Carolina.

In the event that financial record keeping and reporting software becomes inoperable, management believes it has adequate manual systems to continue providing services.

With respect to Year 2000 interferences caused by vendors and customers, management believes that its on-hand inventories of clinical and operating supplies and the strength of relationships with financial institutions and the University of South Carolina will provide adequate resources to address interferences external to the Trust and the University of South Carolina School of Medicine.